AT&T CORP

Filing Type: 10-K
Description: A00
Filing Date: 12/31/98

Ticker: T
Cusip: 001957
State: NY
Country: US
Primary SIC: 4813
Primary Exchange: NYS

Date Printed: 09/03/99

Table of Contents

Created by Disclosure

Filing Sections

To jump to section, click on hypertexted page number

Cover Page
Exhibits and Reports

Exhibits

Exhibits
ARS/10-Q/Quarterly Report
Management Discussion
Financial Statements
Report of Auditors
Income Statement
Balance Sheet
Shareholders Equity
Cashflow Statement
Financial Footnotes
Consents : Experts/Counsel

FORM 10-K/A
AMENDMENT NO. 2
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For The Fiscal Year Ended **December 31, 1998**

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For The Transition Period From _________ to _________

Commission File Number 1-1105

AT&T CORP.

A NEW YORK CORPORATION

I.R.S. EMPLOYER NO. 13-4924710

32 Avenue of the Americas, New York, New York 10013-2412
Telephone Number 212-387-5400

Securities registered pursuant to Section 12(b) of the Act: See attached SCHEDULE A.

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes....x.... No........

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405
of Regulation S-K is not con-tained herein, and will not be contained, to the
best of registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K or any amendment to this
Form 10-K. [ ]

At February 26, 1999, the aggregate market value of voting stock held by
non-affiliates was $143,517,069,605.

At February 26, 1999, 1,746,368,779 common shares were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the registrant's annual report to shareholders for the year
ended December 31, 1998 (Part II) (2) Portions of the registrant's definitive
proxy statement dated March 25, 1999 issued in connection with the annual
meeting of shareholders (Part III)

The undersigned registrant hereby files this Amendment No. 2 to its Form
10-K filed with the Securities Exchange Commission for the year ended December
31, 1998 to file Exhibit 13 and to file the Consent of PricewaterhouseCoopers, LLP.

PART IV

Item 14. Exhibits, Financial Statement Schedule, and Reports on Form 8-K.

(a) Documents filed as a part of the report:

(1) Financial Statements:

	Pages
Report of Management	*
Report of Independent Accountants	*
Statements:	
Consolidated Statements of Income	*
Consolidated Balance Sheets	*
Consolidated Statements of Changes in Shareowners' Equity	*
Consolidated Statements of Cash Flows	*
Notes to Consolidated Financial Statements	*

(2) Financial Statement Schedule:

Report of Independent Accountants	48
Schedule:	
II -- Valuation and Qualifying Accounts	49

Separate financial statements of subsidiaries not consolidated and
50 percent or less owned persons are omitted since no such
entity constitutes a "significant subsidiary" pursuant to the
provisions of Regulation S-X, Article 3-9.

----
* Incorporated herein by reference to the appropriate portions of the Company's
annual report to shareholders for the year ended December 31, 1998.
(See Part II.)

(3) Exhibits:

Exhibits identified in parentheses below, on file with the Securities
and Exchange Commission ("SEC"), are incorporated herein by reference
as exhibits hereto.

Exhibit Number:

(3)a filed
Restated Certificate of Incorporation of the registrant
registrant
January 10, 1989, Certificate of Correction of the
registrant
filed June 8, 1989, Certificate of Change of the
the
filed March 18, 1992, Certificate of Amendment of
the
registrant filed June 1, 1992, Certificate of Amendment of
Amendment
registrant filed April 20, 1994, Certificate of
9,
filed June 8, 1998 and Certificate of Amendment filed March
1999 (Exhibit (3)a to Form 10-K for 1998, File No. 1-1105).

(3)b (Exhibit
By-Laws of the registrant, as amended March 17, 1999
(3)b to Form 10-K for 1998, File No. 1-1105).(4)
No instrument which defines the rights of holders of long term
debt, of the registrant and all of its
consolidated
subsidiaries, is filed herewith pursuant to Regulation S-
K,
Item 601(b)(4)(iii)(A). Pursuant to this regulation,
the
registrant hereby agrees to furnish a copy of any
such
instrument to the SEC upon request.

(10)(i)1 among
Form of Separation and Distribution Agreement by and
Corporation,
AT&T Corp., Lucent Technologies Inc. and NCR
of
dated as of February 1, 1996 and amended and restated as
File
March 29, 1996 (Exhibit (10)(i)1 to Form 10-K for 1996,
No. 1-1105).

(10)(i)2 1996,
Form of Distribution Agreement, dated as of November 20,
(10)(i)
by and between AT&T Corp. and NCR Corporation (Exhibit
2 to Form 10-K for 1996, File No. 1-1105).

(10)(i)3 Lucent
Tax Sharing Agreement by and among AT&T Corp.,

	Technologies Inc. and NCR Corporation, dated as of February
1,	1996 and amended and restated as of March 29, 1996
(Exhibit	(10)(i)3 to Form 10-K for 1996, File No. 1-1105).
(10)(i)4 and	Employee Benefits Agreement by and between AT&T Corp.
and	Lucent Technologies Inc., dated as of February 1, 1996
	amended and restated as of March 29, 1996 (Exhibit (10)(i)4
to	Form 10-K for 1996, File No. 1-1105).
(10)(i)5 20,	Form of Employee Benefits Agreement, dated as of November
(10)(i)5	1996, between AT&T Corp. and NCR Corporation (Exhibit
	to Form 10-K for 1996, File No. 1-1105).
(10)(ii)(B)1 Lucent	General Purchase Agreement between AT&T Corp. and
and	Technologies Inc., dated February 1, 1996 and amended
Form	restated as of March 29, 1996 (Exhibit (10)(ii)(B)1 to
	10-K for 1996, File No. 1-1105).
(10)(ii)(B)2 20,	Form of Volume Purchase Agreement, dated as of November
(Exhibit	1996, by and between AT&T Corp. and NCR Corporation
	(10)(ii)(B)2 to Form 10-K for 1996, File No. 1-1105).
(10)(iii)(A)1 (Exhibit	AT&T Short Term Incentive Plan as amended March, 1994
	(10)(iii)(A)1 to Form 10-K for 1994, File No. 1-1105).
(10)(iii)(A)2 17,	AT&T 1987 Long Term Incentive Program as amended December
No.	1997 (Exhibit (10)(iii)(A)2 to Form 10-K for 1997, File
	1-1105).
(10)(iii)(A)3 as	AT&T Senior Management Individual Life Insurance Program
for	amended March 3, 1998 (Exhibit (10)(iii)(A)3 to Form 10-K
	1997, File No. 1-1105).
(10)(iii)(A)4 Survivor	AT&T Senior Management Long Term Disability and
1,	Protection Plan, as amended and restated effective January
No.	1995 (Exhibit (10)(iii)(A)4 to Form 10-K for 1996, File
	1-1105).
(10)(iii)(A)5 dated	AT&T Senior Management Financial Counseling Program
for	December 29, 1994 (Exhibit (10)(iii)(A)5 to Form 10-K
	1994, File No. 1-1105).
(10)(iii)(A)6 as	AT&T Deferred Compensation Plan for Non-Employee Directors,
	amended December 15, 1993 (Exhibit (10) (iii)(A)6 to Form

10-K

for 1993, File No. 1-1105).

(10)(iii)(A)7 The AT&T Directors Individual Life Insurance Program
as

amended March 2, 1998 (Exhibit (10)(iii)(A)7 to Form 10-K
for

1997, File No. 1-1105).

(10)(iii)(A)8 AT&T Plan for Non-Employee Directors' Travel
Accident

Insurance (Exhibit (10)(iii)(A)8 to Form 10-K for
1990,

File No. 1-1105).

(10)(iii)(A)9 AT&T Excess Benefit and Compensation Plan, as amended
and

restated effective October 1, 1996 (Exhibit (10)(iii)(A)9
to

Form 10-K for 1996, File No. 1-1105).

(10)(iii)(A)10 AT&T Non-Qualified Pension Plan, as amended and
restated

January 1, 1995 (Exhibit (10)(iii)(A)10 to Form 10-K for
1996,

File No. 1-1105).

(10)(iii)(A)11 AT&T Senior Management Incentive Award Deferral Plan,
as

amended January 21, 1998 (Exhibit (10)(iii)(A)11 to Form
10-K

for 1998, File No. 1-1105).

(10)(iii)(A)12 AT&T Mid-Career Hire Program revised effective January 1,
1988

(Exhibit (10)(iii)(A)4 to Form SE, dated March 25, 1988,
File

No. 1-1105) including AT&T Mid-Career Pension Plan,
as

amended and restated October 1, 1996, (Exhibit
(10)(iii)(A)12

to Form 10-K for 1996, File No. 1-1105).

(10)(iii)(A)13 AT&T 1997 Long Term Incentive Program as amended December
17,

1997 (Exhibit (10)(iii)(A)13 to Form 10-K for 1997,
File

No. 1-1105).

(10)(iii)(A)14 Form of Indemnification Contract for Officers and
Directors

(Exhibit (10)(iii)(A)6 to Form SE, dated March 25, 1987,
File

No. 1-1105).

(10)(iii)(A)15 Pension Plan for AT&T Non-Employee Directors revised
February

20, 1989 (Exhibit 10)(iii)(A)15 to Form 10-K for 1993,
File

No. 1-1105).

(10)(iii)(A)16 AT&T Corp. Senior Management Basic Life Insurance Program,
as

amended February 27, 1998 (Exhibit (10)(iii)(A)16 to Form
10-K

for 1997, File No. 1-1105).

(10)(iii)(A)17 Form of AT&T Benefits Protection Trust Agreement as amended

and restated as of November 1993, including the

first

amendment thereto dated December 23, 1997

(Exhibit

(10)(iii)(A)17 to Form 10-K for 1998, File No. 1-1105).

(10)(iii)(A)18 AT&T Senior Officer Severance Plan effective October 9,
1997,

as amended October 30, 1997 (Exhibit (10)(iii)(A)18 to

Form

10-K for 1997, File No. 1-1105).

(10)(iii)(A)19 Form of Pension Agreement between AT&T Corp. and Frank
Ianna

dated October 30, 1997 (Exhibit (10)(iii)(A)19 to Form

10-K

for 1997, File No. 1-1105).

(10)(iii)(A)20 Form of Pension Agreement between AT&T Corp. and John
C.

Petrillo dated October 30, 1997 (Exhibit (10)(iii)(A)21

to

Form 10-K for 1997, File No. 1-1105).

(10)(iii)(A)21 Form of Pension Agreement between AT&T Corp. and John
Zeglis

dated May 7, 1997 (Exhibit (10)(iii)(A)22 to Form 10-K

for

1997, File No. 1-1105).

(10)(iii)(A)22 Form of Employment Agreement between AT&T Corp. and C.
Michael Armstrong dated October 17, 1997 (Exhibit
(10)(iii)(A)23 to
Form 10-K for 1997, File No. 1-1105).

(10)(iii)(A)23 Form of Employment Agreement between AT&T Corp. and Daniel
E.

Somers dated April, 1997 (Exhibit (10)(iii)(A)23 to Form

10-K

for 1998, File No. 1-1105).

(10)(iii)(A)24 Amended and Restated Tele-Communications, Inc. 1994
Stock

Incentive Plan.(Incorporated herein by reference to

Tele-

Communications, Inc.'s Registration Statement on Form

S-8

(Commission File No. 333-40141)).

(10)(iii)(A)25 Amended and Restated Tele-Communications, Inc. 1995
Employee

Stock Incentive Plan. (Incorporated herein by reference

to

Tele-Communications, Inc.'s Registration Statement on Form

S-8

(Commission File No. 333-40141)).

(10)(iii)(A)26 Amended and Restated Tele-Communications, Inc. 1996
Incentive

Plan. (Incorporated herein by reference to

Tele-

Communications, Inc.'s Registration Statement on Form

S-8

(Commission File No. 333-40141)).

(10)(iii)(A)27 TCI 401(k) Stock Plan, restated effective January 1, 1998.

(Incorporated herein by reference to Tele-

Communications,

Inc.'s Annual Report on Form 10-K for the year ended

December

31, 1997, as amended by Form 10-K/A (Commission File

No.

0-20421)).

(10)(iii)(A)28 Inc., Form of 1998 Incentive Plan of Tele-Communications,

effective December 16, 1997. (Incorporated herein

by

reference to Tele-Communications, Inc.'s Definitive

Proxy

Statement on Schedule 14A, dated April 30, 1998

(Commission

File No. 0-20421)).

(10)(iii)(A)29 Stock The Tele-Communications International, Inc. 1995

Incentive Plan. (Incorporated herein by reference to

Tele-

Communications International, Inc. Registration Statement

on

Form S-1 (Commission File No. 33-91876)).

(10)(iii)(A)30 Stock Tele-Communications, Inc. 1994 Non-employee Director

Option Plan (Incorporated herein by reference to Exhibit

4.5

to the Registration Statement on Form S-8 of

Tele-

Communications, Inc. (Commission File No. 333-06179) filed

on

June 18, 1996).

(10)(iii)(A)31 employee Tele-Communications International, Inc. 1996 Non-

Director Stock Option Plan (Incorporated herein by

reference

to Appendix II to the Definitive Proxy Statement on

Schedule

14A of Tele-Communications International, Inc.

(Commission

File No. 0-26264) filed on August 13, 1996).

(10)(iii)(A)32 by Liberty Media 401(K) Savings Plan (Incorporated herein

reference to Exhibit 99.1 to Post-Effective Amendment No. 2

on

Form S-8 to the Registration Statement on Form S-4 of

AT&T

Corp. (Commission File No. 333-70279-02) filed March

10,

1999).

(12) (Exhibit Computation of Ratio of Earnings to Fixed Charges

(12) to Form 10-K for 1998, File No. 1-1105).

(13) back Specified portions (pages 28 through 72 and the inside

cover) of the Company's Annual Report to Shareholders for

the

year ended December 31, 1998.

(21) List of subsidiaries of AT&T (Exhibit (21) to Form 10-K

for
1998, File No. 1-1105).

(23) Consent of PricewaterhouseCoopers, LLP

(24) Powers of Attorney executed by officers and directors who signed this report (Exhibit (24) to Form 10-K for 1998, File No. 1-1105).

(27) Financial Data Schedules (Exhibit (27) to Form 10-K for 1998, File No. 1-1105).

AT&T will furnish, without charge, to a shareholder upon request a copy of the annual report to shareholders and the proxy statement, portions of which are incorporated herein by reference thereto. AT&T will furnish any other exhibit at cost.

(b) Reports on Form 8-K:

During the fourth quarter 1998, Form 8-K dated October 16, 1998 was filed pursuant to Item 5 (Other Events) and Item 7 (Financial Statements and Exhibits) on October 16, 1998, Form 8-K dated October 21, 1998 was filed pursuant to Item 5 (Other Events) on October 21, 1998 and Form 8-K dated December 8, 1998 was filed pursuant to Item 5 (Other Events) on December 8, 1998.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AT&T Corp.

/s/ M. J. Wasser

By: M. J. Wasser
Vice President - Law and Secretary

July 12, 1999

Exhibit 13

Financial Review:
In reviewing our operating performance, we discuss our results on an as-reported basis, as well as on an operational basis which is adjusted for

certain nonoperational items. We believe this will assist readers in understanding AT&T in terms of trends from period to period. The nonoperational items adjusted for in 1998 include restructuring and other charges, primarily due to net charges associated with a voluntary retirement incentive program for certain employees and asset impairment charges associated with a local-service initiative, gains on sales of nonstrategic businesses and the benefit associated with the adoption of a new accounting standard for internal-use software. The nonoperational items adjusted for in 1997 include a charge to exit the two-way messaging business in wireless services, the reversal of certain business restructuring reserves and a gain on the sale of a nonstrategic business. These items are discussed more fully under "Results of Operations" on page 32.

Also, in accordance with generally accepted accounting principles, our financial statements reflect the results of "continuing operations" separate from certain businesses we have divested. These divested businesses are represented as "Income from discontinued operations (net of applicable taxes),""Net assets of discontinued operations," and "Net cash used in discontinued operations." Gains associated with these sales are recorded as "Gains on sales of discontinued operations." In 1998, discontinued operations included the results of AT&T Universal Card Services. The results of AT&T's former submarine systems business is also included in 1997 and 1996 discontinued operations. In addition, 1996 discontinued operations included Lucent Technologies Inc., AT&T Capital Corp., NCR Corp. and other businesses.

Financial Section Index

MANAGEMENT'S DISCUSSION AND ANALYSIS

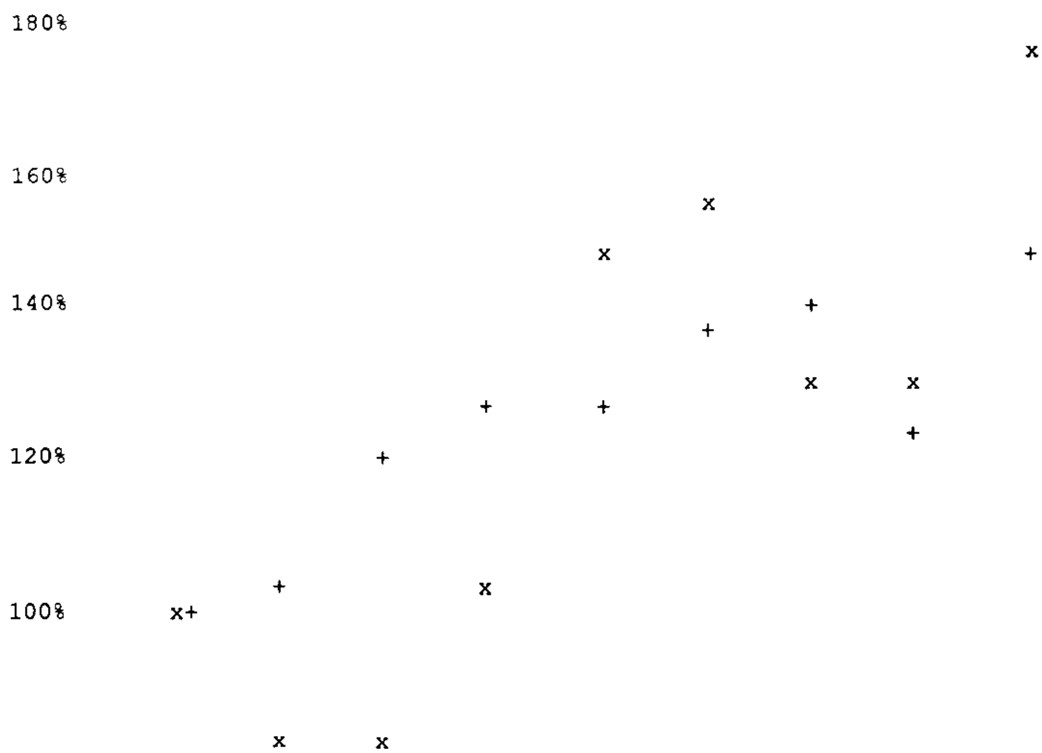
AT&T Corp. (AT&T) entered 1998 in what looked to observers like a cloud of uncertainty around its future. Indeed, the change heralded by the Telecommunications Act of 1996 had failed to materialize in the nearly two years since the law was passed. Our efforts to enter the local-exchange market had proven unsuccessful and costly due largely to the incumbent carriers' choice to exercise their monopoly power.

At the same time our core product--long distance service-was becoming increasingly commoditized. With literally hundreds of competitors in the marketplace, price was quickly becoming the only consideration in customers' buying decisions. That fact highlighted yet another cause for concern: AT&T's cost structure, though improving, was simply not competitive, with selling, general and administrative (SG&A) expenses approaching 30% of revenues.

Investors were looking for solutions to these problems in 1998 and for answers to important questions about our global, wireless and Internet strategies. Above all, investors were looking for growth. AT&T's revenues grew only 1.8% in 1997, although earnings trended upward in the second half of 1997 but declined for the full year compared with 1996.

The response that investors, customers and competitors received was both swift and decisive. The "sleeping giant," as some liked to think of AT&T, roared to life in 1998 and undertook a strategic transformation that has fundamentally redefined our company and changed the future of our industry.

AT&T and Dow Jones Industrial Average Two-Year Return



80%

60%

12/31/ 96	3/31/ 97	6/30/ 97	9/30/ 97	12/31/ 97	3/31/ 98	6/30/ 98	9/30/ 98	12/31/ 98

Legend: AT&T x
Dow +

Investing to Grow...

Our strategy is to grow by investing in facilities to provide advanced, end-to-end communications services directly to our customers, without relying on the networks of other companies. We are moving from the long distance business to the any-distance business, from a domestic carrier to a global power, and from a local cellular provider to a national digital-wireless leader. We are investing in Internet protocol, or IP, networks that will carry voice and data traffic together at a lower cost than circuit-switched networks. And we are investing in broadband connections-high-capacity, high-speed links to homes and businesses--in order to deliver integrated voice, video and data services to our customers.

This is the strategy we communicated to our shareowners in 1998, and we committed to the investments we'll need to execute it. We completed our $11 billion merger with Teleport Communications Group Inc. (TCG), giving us local network facilities to reach business customers in more than 80 U.S. markets. We gained broadband connections to one third of U.S. households through our merger with Tele-Communications Inc. (TCI), which closed in March 1999. We conceived a joint venture with British Telecommunications plc (BT) designed to build a 100-city, global, IP network and become a leading carrier of global communications traffic. We agreed to acquire the global network business of IBM for $5 billion. We continued the expansion of our national digital-wireless footprint, investing more than $1 billion in capital, assuming managementcontrol of our joint venture in Los Angeles, and agreeing to acquire Vanguard Cellular Systems. And shortly into 1999, we announced a joint venture with Time Warner Inc., as well as joint ventures with five TCI affiliates that will extend our cable telephony footprint to more than 40 million homes.

These investments represent AT&T's future growth, yet we are already beginning
to see the benefits of our growth strategy. Our 1998 revenues grew 3.2%, and we
closed the year with 4.8% growth in the fourth quarter. Our wireless business
was a strong contributor with more than 17% growth for the year and more than
30% in the fourth quarter (adjusted for the sale of our messaging business),
driven by the success of our revolutionary AT&T Digital One RateSM service. AT&T
Solutions, our network outsourcing business, achieved more than $1 billion in
revenues in 1998, growth of 34.2% over 1997. Data services grew at a rate in the
mid-teens, led by packet services such as frame relay. And our investment in TCG
began to pay off, as total local service revenues grew 73% for the year. As we
continue our momentum in these areas and begin to build our capabilities in
broadband and global services, AT&T is well positioned to diversify its revenue
streams and accelerate its growth.

...and Delivering Outstanding Financial Performance
While our growth investments grabbed the headlines in 1998, we also made
tremendous progress on our other important commitments to our shareowners:
improving our financial position, reducing costs and growing our earnings and
cash flow.

The investments we're making require a tremendous amount of financial
flexibility. To achieve that, we have aggressively pursued the sales of assets
not critical to our core business. Over the past two years, we have sold our
Universal Card operation, the AT&T Solutions Customer Care business, LIN
Television Corp., SmarTone Telecommunications Holdings Limited, our submarine
systems business and our AT&T Skynet Satellite Services business. These sales
have enhanced our ability to focus on our core mission, but more importantly
brought in more than $12 billion in cash. We used these cash inflows and the
cash generated by our operations to fund our $8 billion capital expenditures,
reduce our debt by $5.2 billion, and return value to our shareowners through
$2.2 billion in dividends and a $3 billion share repurchase program. After all
this, we exited the year with debt-net-of-cash of only 12% of total capital,

down from 33% at the end of 1997. We have ample financial flexibility to absorb the debt carried by TCI and can borrow to meet future cash needs.

We made firm commitments in 1998 relative to our cost structure, and we delivered on them. We told our shareowners that we would reduce our SG&A expenses by $1.6 billion in 1998, and we achieved that target. We did it by attacking costs across the entire company, and by implementing an aggressive force-reduction plan under which we committed to reduce our headcount by 15,000 to 18,000 over two years. Largely as a result of a highly successful voluntary-retirement offer to management employees, we exceeded our target, reducing our headcount by approximately 20,000 in just one year, not including headcount reductions due to businesses sold.

We have far more work to do in order to become the low-cost provider in the industry and achieve our target of a 23% SG&A to revenues ratio for 1999. However, the progress we've made has enabled us to be more competitive in the market with industry-leading price plans such as AT&T One RateSM Plus with 5-cent weekend minutes. It has allowed us to invest in growth opportunities such as a dial-around service, our prepaid card business, our AT&T Digital One Rate service and AT&T Personal Network offer. And a competitive cost structure will be critical to our success as we invest in our any-distance, broadband telephonyand data efforts and as we increase our sales capabilities in business markets.

Declining costs have not only helped us in the market; they've helped AT&T deliver very strong financial results for our shareowners. We delivered earnings from continuing operations, excluding certain nonoperational charges and gains (discussed more fully under "Results of Operations"), of $3.45 per diluted share in 1998, an increase of 46% over 1997. We grew our earnings per diluted share on the same basis in excess of 40% in each of the last three quarters of the year. Our reported earnings from continuing operations per diluted share were $2.91, a 22% increase over 1997.

Our cash flow from operations also grew impressively to $10.2 billion in 1998, an increase of 20.2%. Excluding the nonoperational charges and gains, we generated just under $15 billion in EBITDA, growth of $3.7 billion, or

33%.
We'll redeploy the cash our business produces in order to fuel our growth engines-broadband communications, local service for businesses, wireless, global and Internet services.

```
Income from Continuing Operations per Diluted Share
Dollars

$4.00

                                                3.45
                                                #


$3.00                                                 2.91
                                                      x


                  2.37    2.38
                  #       x


$2.00




$1.00                     1997                        1998
Legend:  Operational*     #
         As reported      x
```

* Excludes certain nonoperational items.

There's a lot more to the AT&T story of 1998, as described in the paragraphs below. But 1998 was only the beginning. We identified the path we are taking into the future, and now we must execute and continue to deliver on our commitments in order to stay on course.

AT&T Corp.

OVERVIEW

AT&T is among the world's communications leaders, providing voice, data and video telecommunications services to large and small businesses, consumers and government agencies. We provide regional, domestic, international, local and Internet communication transmission services, including cellular telephone and other wireless services. In support of these services, we segment our results by primary lines of business: business services, consumer services and wireless services. A fourth category, other and corporate, includes the results of

our
other smaller units and corporate cost centers. Results are discussed for these
four categories as well as for consolidated AT&T. Additionally, we
supplementally discuss local services, new wireless services, AT&T Solutions,
AT&T WorldNetSM and other online services, and international operations and
ventures.

Business Services
Our business services segment offers a variety of long distance voice and data
services to business customers, including domestic and international, inbound
and outbound, inter- and intra-LATA toll services, calling card and
operator-handled services, and other network enabled services. In addition, this
segment provides local services, and Web hosting and other electronic-commerce
services.

Consumer Services
Our consumer services segment provides long distance services to residential
customers, including domestic and international long distance services, inter-
and intra-LATA toll services, calling card and operator-handled calling
services, and prepaid calling cards. In addition, local service is offered on a
limited basis.

Wireless Services
Our wireless services segment offers wireless services and products to customers
in 850 MHz markets and newer 1900 MHz markets as well as wireless data. This
segment's results also include costs associated with the development of
fixed-wireless technology, which, along with the results of the newer 1900 MHz
markets and wireless data, are discussed as "new wireless services" within this
document.

Other and Corporate
This group reflects the results of AT&T Solutions, our outsourcing, network-
management and professional-services business, TCG (including their acquisition
of ACC Corp. - ACC - in April 1998), international operations and ventures, AT&T
WorldNet Service, our Internet access services business, and corporate
overhead.

AT&T Corp.

Revenues
Dollars in Millions
$30,000

Dollars in Millions
$30,000

21,491 22,030 22,940
x x x
$20,000

$10,000

0
96 97 98
Business Services x

Dollars in Millions

24,184 23,527 22,632
x x x
$20,000

$10,000

0
96 97 98
Consumer Services x

Dollars in Millions

$8,000

$6,000 5,406
x
4,668
4,246 x
x
$4,000

$2,000

0
96 97 98
Wireless Services x

$8,000

$6,000

$4,000 3,549
x
2,704
x
1,892
$2,000 x

0
96 97 98
Other and Corporate x

AT&T Corp.

The discussion of results includes revenues; earnings, including other income, before interest and taxes (EBIT); earnings, including other income, before interest, taxes, depreciation and amortization (EBITDA); capital additions

and
total assets.

AT&T calculates EBIT as operating income plus other income and is a measure used
by our chief operating decision-makers to measure AT&T's consolidated operating
results and to measure segment profitability. Interest and taxes are not
allocated to our segments because debt is managed and serviced and taxes
aremanaged and calculated on a centralized basis. Trends in interest and taxes are
discussed separately on a consolidated basis. Management believes EBIT is a
meaningful measure to disclose to investors because it provides investors with
an analysis of operating results using the same measures used by the chief
operating decision-makers of AT&T, provides a return on total capitalization
measure, and allows investors a means to evaluate the financial results of each
segment in relation to consolidated AT&T. Our calculation of EBIT may or may not
be consistent with the calculation of EBIT by other public companies, and EBIT
should not be viewed by investors as an alternative to generally accepted
accounting principles (GAAP) measures of income as a measure of performance or
to cash flows from operating, investing and financing activities as a measure of
liquidity.

EBITDA is also used by management as a measure of segment performance and is
defined as EBIT plus depreciation and amortization. We believe it is meaningful
to investors as a measure of each segment's liquidity and allows investors to
evaluate a segment's liquidity using the same measure that is used by the chief
operating decision-makers of AT&T. Consolidated EBITDA is also provided for
comparison purposes. Our calculation of EBITDA may or may not be consistent with
the calculation of EBITDA by other public companies and should not be viewed by
investors as an alternative to GAAP measures of income as a measure of
performance or to cash flows from operating, investing and financing activities
as a measure of liquidity. In addition, EBITDA does not take into effect changes
in certain assets and liabilities which can affect cash flow.

AT&T Corp.

The following discussion and analysis provides information management believes
is relevant to an assessment and understanding of AT&T's consolidated results of
operations for the years ended December 31, 1998, 1997 and 1996 and

financial condition as of December 31, 1998 and 1997.

We completed the merger with TCG on July 23, 1998. Each share of TCG common stock was exchanged for 0.943 of AT&T common stock, resulting in an issuance of 181.6 million shares in the transaction. The merger was accounted for as a pooling of interests, and accordingly, AT&T's historical financial statements were restated to reflect the combined results of AT&T and TCG.

FORWARD-LOOKING STATEMENTS

Except for the historical statements and discussions contained herein, statements contained herein constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements concerning future operating performance, AT&T's share of new and existing markets, AT&T's short- and long-term revenues and earnings growth rates, and general industry growth rates and AT&T's performance relative thereto. These forward-looking statements rely on a number of assumptions concerning future events, including, but not limited to, requirements imposed on AT&T or latitude allowed to competitors by the Federal Communications Commission (FCC) or state regulatory commissions under the Telecommunications Act and other applicable laws and regulations; the successful technical, operational and marketing integration of cable and telephony services; and the ability to establish significant market presence in new geographic and service markets. These forward-looking statements are subject to a number of uncertainties and other factors, many of which are outside AT&T's control, that could cause actual results to differ materially from such statements. AT&T disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

RESULTS OF OPERATIONS

CONSOLIDATED RESULTS

For the Years Ended December 31, Dollars in Millions	1998	1997	1996
REVENUES			
Business services	$22,940	$22,030	$21,491
Consumer services	22,632	23,527	24,184
Wireless services	5,406	4,668	4,246
Other and corporate	3,549	2,704	1,892

Eliminations..............................	(1,304)	(1,352)	(1,125)
Total revenues............................	$53,223	$51,577	$50,688

Revenues from continuing operations increased 3.2% to $53,223 million in 1998 compared with 1997, led by business services, primarily data services, and wireless services, primarily due to the success of our AT&T Digital One Rate service. Also contributing to revenue growth was growth from TCG, including ACC, and AT&T Solutions, which are included in the other and corporate group. Improvements in these areas were partially offset by continued declines in consumer long distance revenues and the reduced revenues due to the sale of AT&T Solutions Customer Care (ASCC). For 1998, total long distance services revenues (included in business services and consumer services) were essentially flat while calling volume increased 4.7% compared with 1997. Revenues by segment are discussed in more detail in the segment results section. We anticipate total revenues to grow in the range of 5%-7% in 1999, including the impact of our merger with TCI and our planned acquisitions of Vanguard Cellular Systems (Vanguard) and IBM's Global Network business all on a pro forma basis, that is assuming these businesses were part of AT&T in 1998 and 1999.

Total revenues in 1997 increased 1.8% compared with 1996 due to growth in data services revenues in business services and wireless services. In addition, AT&T Solutions, TCG, AT&T WorldNet Services and international operations and ventures, which are included in the other and corporate group, contributed to revenue growth. Declines in consumer long distance revenues partially offset this growth.

Eliminations reflect the elimination of revenues for services sold between units (e.g., sales of business long distance services to other AT&T units).

OPERATING EXPENSES

For the year, operating expenses totaled $45,736 million, an increase of 2.2%, from $44,741 million in 1997. In 1997, operating expenses increased 6.6% from $41,979 million in 1996. Operating expenses in 1998 included $2,514 million of restructuring and other charges as well as a benefit of $199 million from the adoption of Statement of Position (SOP) 98-1 (collectively, the 1998 net charges). Operating expenses in 1997 included a $160 million charge to exit the two-way messaging business and a $100 million benefit from the reversal of pre-1995 restructuring reserves (collectively, the 1997 net charges). Excluding the impact of the 1998 and 1997 net charges, operating expenses decreased 2.8% in 1998 compared with 1997 and increased 6.4% in 1997 compared with 1996.

Operating Expenses and Revenues
Dollars in Millions
$60,000
53,223
51,577 +
50,688
+
+
44,741
x
43,222
41,979
x
x
$40,000

$20,000
1996 1997 1998

Operating Expenses Excluding Restructuring and Other Charges x
Revenues +

AT&T Corp.

For the Years Ended December 31,	1998	1997	1996
Dollars in Millions			
Access and other interconnection	$15,328	$16,350	$16,363

Access and other interconnection expenses are the charges we pay to connect calls on the facilities of local exchange carriers and other domestic service providers, and fees we pay foreign telephone companies (international settlements) to connect calls made to foreign countries on our behalf. These charges represent payments to these carriers for the common and dedicated facilities and switching equipment used to connect our network with theirs. In 1998, these costs declined $1,022 million, or 6.3%, reflecting FCC-mandated reductions in per-minute access rates which went into effect in July 1997 and January and July 1998 and lower international settlement rates resulting from increased competition. Additionally, we continue to manage these costs through more efficient network usage. These reductions were largely offset by increased per-line charges (Primary Interexchange Carrier Charges or PICC) and changes in the Universal Service Fund contribution resulting from FCC access reform, as well as volume increases. As many of these costs are a pass-through to the customer, per-minute access-rate reductions and increases in per-line charges and the Universal Service Fund will generally result in an offsetting impact on revenues.

Access and other interconnection expenses remained essentially flat in 1997 compared with 1996, due to lower per-minute access costs which are primarily the result of declines in international settlement rates and access-charge reform mandated by the FCC effective for the second half of 1997. Interstate and intrastate tariff reductions, changes in traffic mix and network planning also contributed to the lower per-minute access costs. These decreases were partially offset by volume growth and a beneficial second quarter 1996 accounting adjustment of previously estimated accruals to reflect actual billing.

Access and other interconnection expenses were 33.8% of long distance revenues in 1998, 35.9% in 1997 and 35.8% in 1996. We expect this percentage to continue to decline over time as we realize synergies from our merger with TCG.

For the Years Ended December 31, Dollars in Millions	1998	1997	1996
Network and other communications services	$10,250	$9,739	$8,262

Network and other communications services expenses include the costs of operating and maintaining our network, the provision for uncollectible receivables, the costs of wireless handsets sold, compensation to pay-phone operators, operator services and nonincome-related taxes. These costs increased $511 million, or 5.2%, in 1998 compared with 1997. This increase was largely attributable to increases in wireless services due to intercarrier roaming charges and cost of handsets sold as a result of the success of AT&T Digital One Rate service. The increase in cost of handsets reflects not only the higher number of handsets sold, but the increased cost of the unit as customers migrate or sign up for digital service. Growth in our AT&T Solutions and local businesses, as well as increased data traffic on the AT&T network also contributed to the increase. Partially offsetting these increases was a lower provision for uncollectible receivables as a result of improved collections in business services, lower network cost of services as a result of the sale of ASCC in the first quarter of 1998, and the impact of the 1997 two-way messaging charge, half of which was recorded in network and other communications services expense.

Number of Calls on the Network
Billions
90
82.6
x
76.3
x
68.0
X
60
30
1996 1997 1998

AT&T Corp.

Network and other communications services expenses increased $1,477 million, or 17.9%, in 1997 compared with 1996. In 1997, we invested heavily in growth businesses such as AT&T Solutions, AT&T WorldNet Services, local services and new wireless services. Approximately half of the increase in 1997 was due to costs associated with these growth businesses. The remaining increase wasprimarily driven by FCC-mandated compensation to pay-phone operators and the increased number and cost of wireless handsets sold.

For the Years Ended December 31,	1998	1997	1996
Dollars in Millions			
Depreciation and amortization	$4,629	$3,982	$2,819

Depreciation and amortization expenses increased $647 million, or 16.2%, in 1998. This increase was driven by continued high levels of capital expenditures in 1998 and 1997. Gross capital expenditures for the year were $8.0 billion and $7.7 billion in 1998 and 1997, respectively. More than half of the capital expenditures in 1998 were related to the long distance network, including the completion of the initial SONET (Synchronous Optical Network) build-out. These expenditures expanded network capacity, reliability and efficiency. In addition, we invested in our local network to expand our switching and transport capacity and invested to expand our wireless footprint. We expect depreciation and amortization expenses to continue to increase in 1999 as we focus our spending on growth areas such as data and IP networking, wireless and business local.

Depreciation and amortization expenses increased $1,163 million, or 41.3%, in 1997. The increase was driven by continued high levels of capital expenditures, including the impact of purchasing assets at retail from Lucent Technologies Inc. (Lucent), subsequent to its spin-off. The 1997 expenditures were primarily for our long distance and wireless networks, including the deployment of SONET. We also invested substantial capital in building our capability for local service and AT&T WorldNet Service.

AT&T Corp.

For the Years Ended December 31, Dollars in Millions	1998	1997	1996
Selling, general and administrative	$13,015	$14,670	$14,535

Selling, general and administrative (SG&A) expenses decreased $1,655 million, or 11.3%, in 1998 compared with 1997. The decrease was due primarily to savings from cost-control initiatives such as headcount reductions. In 1998, we adopted SOP 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Among other provisions, the SOP requires capitalization of certain internal-use software costs once certain criteria are met. The impact of adopting this SOP was a reduction of SG&A expenses of $221 million in 1998. Also contributing to the decrease in SG&A expenses was a decline in marketing and sales costs relating to lower customer-acquisition costs in consumer services. These declines were partially offset by increases in wireless customer acquisition and migration costs and increased costs associated with the year 2000 initiative. SG&A expenses as a percent of revenues were 24.5%, including the benefit of adopting SOP 98-1, in 1998, 28.4% in 1997 and 28.7% in 1996.

SG&A as a percent of revenues

30%   28.7%   28.4%
         x   x

24.5%
x

20%

10%

1996 1997 1998

The reduced level of expenses reflects AT&T's efforts to achieve a best-in-class cost structure. Excluding the impact of TCG and the benefit associated with SOP 98-1, SG&A expenses declined $1,602 million in 1998, reflecting AT&T's successful achievement of its target to remove $1.6 billion of SG&A expenses (excluding TCG) from the business in 1998. Our efforts to achieve a best-in-class cost structure will continue as we have targeted a ratio of SG&A expenses to revenues of 23% overall and 21% excluding the local and wireless businesses for 1999.

SG&A expenses increased $135 million, or 0.9%, in 1997. We increased spending on growth businesses such as local and new wireless services as well as spending on transitory projects such as preparation of our systems for the year 2000. In addition, SG&A expenses increased due to higher retention and acquisition costs in core wireless markets. These increases were partially offset by lower advertising expenses across AT&T, lower acquisition costs in consumer markets - primarily a reduction in the use of checks to acquire customers, and lower marketing and sales expenses in business markets.

Also included in SG&A expenses were $662 million, $851 million and $822 million of research and development expenses in 1998, 1997 and 1996, respectively. Research and development expenditures are mainly for work on advanced communications services and projects aimed at IP services. The decline in research and development expenses in 1998 is mainly due to the redeployment of resources in support of the year 2000 project. These expenses are still a component of SG&A, but, are not classified as research and development expenses.

Restructuring and other charges

During 1998, we recorded restructuring and other charges of $2,514 million, which had an approximate $0.88 impact on earnings per diluted share. The bulk of the charge was associated with a plan, announced on January 26, 1998, to reduce headcount by 15,000 to 18,000 over two years as part of our overall cost-reduction program. In connection with this plan, a voluntary retirement incentive program (VRIP) was offered to eligible management employees. Approximately 15,300 management employees accepted the VRIP offer and as of December 31, 1998, 14,700 have terminated employment. In 1999, the remaining 600 VRIP participants will terminate employment. A restructuring charge of $2,724 million recorded in the second quarter of 1998 was composed of $2,254 million and $169 million for pension and postretirement special-termination benefits, respectively, $263 million of curtailment losses and $38 million of other administrative costs. We also recorded charges of $125 million for related facility costs and $150 million for executive-separation costs. These charges were partially offset by $940 million of gains recorded in the second half of 1998 as we settled pension benefit obligations of 13,700 of the total VRIP employees. In addition, the VRIP charges were partially offset by the reversal of $256 million of 1995 business restructuring reserves primarily resulting from the overlap of VRIP on certain 1995 projects.

During 1998, AT&T recorded asset impairment charges totaling $718 million, of which $633 million was associated with the local initiative. Included in this $633 million were charges of $601 million and $32 million recorded in the firstand fourth quarters of 1998, respectively, related to our decision not to pursue Total Service Resale (TSR) as a local-service strategy. The Regional Bell Operating Companies have made it extremely difficult to enter the local market under a TSR strategy. After spending several billions of dollars in an attempt to enter this market, it became clear to AT&T that the TSR solution is not economically viable. The $633 million charge includes a $543 million write-down of software, $74 million write-down of related assets associated with the ordering, provisioning and billing for resold local services and $16 million for certain contractual obligations and termination penalties under several vendor contracts that were canceled during the first quarter as a result of this decision. AT&T received no operational benefit from these contracts once this decision was made. Also reflected in the $718 million charge was a fourth-quarter asset impairment charge of $85 million related to the write-down of unrecoverable assets in certain international operations in which the carrying value is no longer supported by future cash flows. This charge was made in connection with an ongoing review associated with the upcoming formation of a global joint venture with BT, which will require AT&T to exit certain operations that compete directly with BT.

Additionally, an $85 million charge for merger-related expenses was recorded in the third quarter of 1998 in connection with the TCG pooling.

Partially offsetting these charges in the fourth quarter of 1998 was a $92 million reversal of the 1995 restructuring reserve. This reversal reflects reserves that were no longer deemed necessary. The reversal primarily included separation costs attributed to projects completed at a cost lower than originally anticipated. Consistent with the three-year plan, the 1995 restructuring initiatives are substantially complete.

AT&T Corp.

For the Years Ended December 31, Dollars in Millions	1998	1997	1996
Other income - net	$1,247	$443	$405

Other income - net increased $804 million, or 180.9%, in 1998 due primarily to significantly higher gains on sales of nonstrategic businesses as well as increased interest income on our higher cash balance. In 1998, we recorded gains from the sales of ASCC of $350 million, LIN Television Corp. (LIN-TV) of $317 million and SmarTone Telecommunications Holdings Limited (SmarTone) of $103 million. The increase associated with these 1998 gains was partially offset by lower earnings from equity investments and a gain in 1997 on the sale of AT&T Skynet Satellite Services (Skynet) of $97 million.

Other income - net increased $38 million, or 9.4%, in 1997. The increase was primarily associated with the gain on the sale of Skynet in 1997, partially offset by a decrease in gains on sales and exchanges of cellular investments.

For the Years Ended December 31, Dollars in Millions	1998	1997	1996
EBIT	$8,734	$7,279	$9,114

EBIT increased $1,455 million, or 20.0%, in 1998. Excluding the impact of the 1998 and 1997 net charges and gains, EBIT for 1998 was $10,279 million, an increase of $3,037 million, or 41.9%, compared with 1997. This increase in EBIT was driven by higher revenues, the benefit of our SG&A cost-cutting initiatives and lower international settlement rates.

AT&T Corp.

1998 EBIT
Dollars in Millions
$10,000

$8,000

6,613 6,662
x +

$6,000 5,525
5,397 +
x

$4,000

$2,000

3 118 Other and
x + Corporate
0 Business Consumer Wireless
Services Services Services

x
(1,701)

$(2,000)

+
(3,53
8)

Operational* x
As reported +
*Excludes certain nonoperational items.

AT&T Corp.

EBIT for 1997 decreased $1,835 million, or 20.1%, due to our 1997 investment in growth businesses and higher levels of depreciation and amortization associated with an increased level of capital spending including the impact of purchasing assets at retail from Lucent, subsequent to its spin-off.

For the Years Ended December 31, Dollars in Millions	1998	1997	1996
Interest expense	$427	$307	$417

After the sale of Universal Card Services (UCS) on April 2, 1998, interest expense associated with debt previously attributed to UCS was reclassified from discontinued operations to continuing operations since we did not retire all of this debt. This reclassification is the primary reason for the $120 million, or38.9%, increase in interest expense in 1998. In August 1998, we retired $1,046 million of TCG's debt early, which will produce significant savings in future interest expense. However, we anticipate interest expense to increase in 1999 as we fund announced acquisitions and ventures.

Interest expense decreased $110 million, or 26.4%, in 1997 due to lower levels of average debt and a higher proportion of capitalized interest partially offset by higher average interest rates on debt. Average debt was higher in 1996 due to the additional debt associated with Lucent, prior to the assumption by Lucent of such debt in April 1996. We capitalized a greater proportion of our interest expense in 1997 primarily due to higher qualifying assets for our local initiative.

For the Years Ended December 31, Dollars in Millions	1998	1997	1996
Provision for income taxes	$3,072	$2,723	$3,239

The effective income tax rate is the provision for income taxes as a percentage of income from continuing operations before income taxes. The effective income tax rate was 37.0% in 1998, 39.0% in 1997 and 37.2% in 1996. The lower effective tax rate in 1998 is due to the tax benefits of certain investment dispositions and foreign legal entity restructurings. The higher effective tax rate in 1997, compared with 1996, is due to 1996 tax benefits associated with various legal entity restructurings.

For the Years Ended December 31, Dollars in Millions	1998	1997	1996
Income from continuing operations	$5,235	$4,249	$5,458

Income from continuing operations increased $986 million, or 23.2%, in 1998 due primarily to the benefit of our SG&A cost-cutting initiatives, higher revenues, lower international settlement rates and gains on sales of nonstrategic businesses, partially offset by the impact of restructuring and other charges.
Income from continuing operations on a diluted per share basis was $2.91,

$2.38
and $3.09 for the years ended December 31, 1998, 1997 and 1996, respectively.
Excluding the after-tax impacts of the 1998 and 1997 net charges and gains, 1998 income from continuing operations increased $1,979 million, or 46.8%, compared with 1997. This translates into an earnings per diluted share of $3.45, an increase of $1.08, or 45.6%, over 1997. We expect 1999 earnings per diluted share to be in the range of $4.20 to $4.30, excluding the impact of the merger with TCI and a planned stock split and share repurchase.

Income from continuing operations decreased $1,209 million, or 22.2%, in 1997.
Increased dilution from investment in growth businesses, and lower earnings from our other, more mature businesses, due primarily to higher levels of depreciation and amortization, contributed almost equally to the decline.

For the Years Ended December 31, Dollars in Millions	1998	1997	1996
Discontinued Operations:			
Income from discontinued operations	$ 10	$ 100	$ 173
Gain on sale of discontinued operations	1,290	66	162

Pursuant to Accounting Principles Board Opinion No. 30 "Reporting the Results of Operations- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (APB 30) the consolidated financial statements of AT&T reflect the dispositions of UCS which was sold on April 2, 1998, the sale of AT&T's submarine systemsbusiness (SSI) on July 1, 1997, and the sale of AT&T Capital Corp. on October 1, 1996, as discontinued operations. In addition, discontinued operations included the results of Lucent and NCR Corp., spun-off on September 30, 1996 and December 31, 1996, respectively. Accordingly, the revenues, costs and expenses, assets and liabilities, and cash flows of these businesses have been excluded from the respective captions in the Consolidated Statements of Income, Consolidated Balance Sheets and Consolidated Statements of Cash Flows, and have been reported through their respective dates of disposition as "Income from discontinued operations, net of applicable income taxes;" as "Net assets of discontinued operations;" and as "Net cash provided by (used in) discontinued operations." As of December 31, 1998, all businesses previously reported as discontinued operations have been disposed of. Gains associated with these sales are recorded as "Gains on sale of discontinued operations."

In August 1998, AT&T extinguished $1,046 million of TCG's debt. The $217 million pretax loss on the early extinguishment of debt was recorded as an extraordinary loss. The after-tax impact was $137 million, or $0.08 per diluted share. This debt reduction will produce significant savings in future interest expense.

For the Years Ended December 31,	1998	1997	1996
Dollars in Millions			
Net income	$6,398	$4,415	$5,793

Net income increased $1,983 million, or 44.9%, in 1998 due primarily to the gain on the sale of UCS and increased income from continuing operations. Earnings per diluted share were $3.55, $2.47 and $3.28 for the years ended December 31, 1998, 1997 and 1996, respectively.

Net income decreased $1,378 million, or 23.8%, in 1997 due to lower income from continuing operations as discussed above.

AT&T Corp.

SEGMENT RESULTS

AT&T's results are segmented as follows: business services, consumer services and wireless services. A fourth category, identified as other and corporate, includes the results of AT&T Solutions, TCG, international operations and ventures, AT&T WorldNet Service, and corporate overhead. The results of these groups plus the impact of the elimination of internal business sum to AT&T's consolidated results. The following is a discussion of revenues, EBIT, EBITDA, capital additions and total assets for each of the segments, the other and corporate group, as well as supplemental information on local services, new wireless services, AT&T Solutions, AT&T WorldNet and other online services, and international operations and ventures.

1998 EBITDA
Dollars in Millions
$10,000

7,720

$8,000 7,583 + 7,318 7,379
x x +

$6,000

$4,000

$2,000

1,105 x   1,220 +

Other and Corporate

0   Business Services   Consumer Services   Wireless Services

x (1,035)

$(2,000)

+ (2,871)

Operational* x
As reported +
*Excludes certain nonoperational items.

AT&T Corp.

Reflecting the dynamics of our business, we are reviewing our management model and structure which will result in adjustments to our segment discussion during 1999. While this is an evolving process, we anticipate changes as follows: The business services segment will be expanded to include the results of TCG and the business portion of AT&T WorldNet, and the consumer services segment will be expanded to include the residential portion of AT&T WorldNet.

AT&T calculates EBIT as operating income plus other income and is a measure used by our chief operating decision-makers to measure AT&T's consolidated operating results and to measure segment profitability. Interest and taxes are not allocated to our segments because debt is managed and serviced and taxes are managed and calculated on a centralized basis. Trends in interest and taxes are discussed separately on a consolidated basis. Management believes EBIT is a meaningful measure to disclose to investors because it provides investors with an analysis of operating results using the same measures used by the chief operating decision-makers of AT&T, provides a return on total capitalization measure, and it allows investors a means to evaluate the financial results of each segment in relation to consolidated AT&T. Our calculation of EBIT may or may not be consistent with the calculation of EBIT by other public companies and

EBIT should not be viewed by investors as an alternative to GAAP measures of
income as a measure of performance or to cash flows from operating, investing
and financing activities as a measure of liquidity.

EBITDA is also used by management as a measure of segment performance and is
defined as EBIT plus depreciation and amortization. We believe it is meaningful
to investors as a measure of each segment's liquidity and allows investors to
evaluate a segment's liquidity using the same measure that is used by the chief
operating decision-makers of AT&T. Consolidated EBITDA is also provided for
comparison purposes. Our calculation of EBITDA may or may not be consistent with
the calculation of EBITDA by other public companies and should not be viewed by
investors as an alternative to GAAP measures of income as a measure of
performance or to cash flows from operating, investing and financing activities
as a measure of liquidity. In addition, EBITDA does not take into effect changes
in certain assets and liabilities which can affect cash flow.Total assets for each segment include all assets, except interentity
receivables. Deferred taxes, prepaid pension assets, and corporate-owned or
leased real estate are generally held at the corporate level and therefore are
included in the other and corporate group. Shared network assets are allocated
to the segments and reallocated each January, based on the prior three years'
volumes of minutes used.

AT&T Corp.

PIE CHART: 1998 CAPITAL SPENDING BY CATEGORY

BUSINESS SERVICES

For the Years Ended December 31, Dollars in Millions	1998	1997	1996
Revenues............................	$22,940	$22,030	$21,491
EBIT................................	5,525	4,592	5,215
EBITDA..............................	7,720	6,349	6,313
Capital additions...................	4,978	4,085	2,538
At December 31,	1998	1997	
Total assets*.......................	$18,077	$15,030	

* Includes allocated shared network assets of $12,442 and $10,246 at December
31, 1998 and 1997, respectively.

REVENUES

Business services revenues rose $910 million, or 4.1%, in 1998, led by mid-teens
growth in data services revenues. Adjusting for the 1997 sales of Skynet

and AT&T Tridom, revenues grew 4.4%. Data services, which is the transport of data rather than voice along our network, was led by strong growth in frame relay and high-speed private line, both of which are high-speed-data-transmission services. Long distance voice-related revenues were essentially flat for the year despite high single-digit growth in volumes. This reflects a declining average price per minute which was driven by competitive forces as well as changes in product mix. Revenues also were impacted by reductions in access costs which were passed to customers in the form of lower rates. We anticipate total business services revenues to grow between 7% and 9% in 1999 as a result of continued growth in data as well as local and wholesale services.

Business services revenues grew $539 million, or 2.5%, in 1997. Adjusting for the sales of Skynet and AT&T Tridom, revenues grew 3.3% in 1997. Strong growth in revenues from data services - frame relay and other emerging services as well as private line - drove the increase in business revenues. Long distance voice-services revenues declined slightly, while volumes grew in the mid-teens. Revenues from long distance voice were impacted by pricing pressure brought on by a number of factors. Many voice-service contracts were renegotiated during 1997 due to uncertainty surrounding the possibility of detariffing and competitive pressure. Also, reductions in access costs were passed to customers in the form of lower rates, further impacting revenue growth.

EBIT/EBITDA

EBIT increased $933 million, or 20.3%, and EBITDA increased $1,371 million, or21.6%, in 1998. Excluding the 1998 benefit from the adoption of SOP 98-1 and the 1997 gain on the sale of Skynet, EBIT increased 20.1% to $5,397 million and EBITDA increased 21.3% to $7,583 million. The increases were driven by growth in revenues and the benefits reaped from AT&T's companywide cost-cutting initiatives. In particular, streamlining of customer-care and sales-support functions, including significant headcount reductions, contributed to the increases. The impact of these items on EBIT were partially offset by increased depreciation and amortization expense correlated to the continued high levels of capital additions.

EBIT decreased $623 million, or 12.0%, in 1997 reflecting increased depreciation and amortization expense from capital spending in the second half of 1996 and throughout 1997 and FCC-mandated pay-phone compensation costs which began in 1997. These increases were partially offset by decreased SG&A expenses and the gain on the sale of Skynet. Excluding the Skynet gain, EBIT decreased 13.8%.
EBITDA increased $36 million, or 0.6%, in 1997, reflecting decreases in SG&A and the gain on the sale of Skynet, partially offset by FCC-mandated pay-phone compensation costs. Excluding the impact of the Skynet gain, EBITDA decreased 1.0%.

OTHER ITEMS
Capital additions increased $893 million, or 21.8%, in 1998 and increased $1,547 million, or 61.0%, in 1997 due to an increase in the allocation of shared network assets. Capital spending reflects business services' portion of AT&T's investment to enhance our network (including the data network), and spending on AT&T's Digital Link product for local service.

Total assets increased $3,047 million, or 20.3%, at December 31, 1998, compared with December 31, 1997. The increase was primarily due to net increases in property, plant and equipment (additions less depreciation), and an increase in the allocation of shared network assets due to higher business volumes as a percentage of total volumes.

AT&T Corp.

CONSUMER SERVICES

For the Years Ended December 31, Dollars in Millions	1998	1997	1996
Revenues	$22,632	$23,527	$24,184
EBIT	6,662	5,094	5,345
EBITDA	7,379	5,883	5,982
Capital additions	457	921	1,867
At December 31,	1998	1997	
Total assets*	$ 6,252	$ 7,923	

* Includes allocated shared network assets of $2,921 and $4,168 at December 31, 1998 and 1997, respectively.

REVENUES
Revenues fell $895 million, or 3.8%, in 1998 on a low single-digit decline in volume. The decline in revenues reflected the impact of AT&T's strategy to

focus
on high-value customers and actively migrate them to optional calling plans
that
provide more favorable pricing for the customer. In addition to the impact
of
this migration strategy, revenues continued to be pressured by competition
in
domestic and international long distance markets, including the impact
of
dial-around competitors, as well as the flow-through of access-charge
reductionsto customers. We expect revenues to continue to decline in 1999 in
the range of
2%-4%.

Revenues in 1997 declined $657 million, or 2.7%, due to a number of
strategic
choices intended to improve profitability. For instance, we accelerated the
use
of free minutes as a customer incentive in 1997, increasingly using them
in
place of checks. Since free minutes are classified as a deduction from
revenues,
while checks are a component of SG&A expense, our move toward free
minutes
served to reduce revenue growth. Also impacting revenues were the effects
of
flowing savings from access reform through to customers, resulting in
lower
prices and the migration of customers to more-favorable calling plans.
Partially
offsetting the declines was growth in intra-LATA, or local-toll services.

AT&T Corp.

EBIT/EBITDA
For the year ended December 31, 1998, EBIT increased $1,568 million, or
30.8%,
and EBITDA increased $1,496 million, or 25.4%. These increases were
driven
primarily by reduced SG&A expenses. SG&A expense declines are primarily due
to
AT&T's continued focus on high-value customers which has led to lower
spending
on customer acquisition and retention. Simplification and consolidation
of
marketing messages has also generated substantial efficiencies, and
consumer
services has increased its use of alternate, more efficient
distribution
channels. For example, One Rate Online offers activation, customer care
and
billing over the Internet with payment via credit card. EBIT and EBITDA
were
also positively impacted by lower international settlement rates. Excluding
the
1998 benefit from the adoption of SOP 98-1, EBIT increased 29.8% to
$6,613
million and EBITDA increased 24.4% to $7,318 million compared with 1997.

EBIT and EBITDA decreased $251 million, or 4.7%, and $99 million, or
1.7%,
respectively in 1997. These declines were due to lower revenues
primarily

associated with the use of free minutes as a retention tool and higher network
and other communications services expenses due primarily to a higher provision
for uncollectibles and FCC-mandated pay-phone compensation expense which began
in 1997. Partially offsetting the reductions to EBIT and EBITDA were lower
international settlement rates and reductions in SG&A expenses, due primarily to
lower acquisition costs.

OTHER ITEMS
Capital additions declined $464 million, or 50.3%, and total assets decreased
$1,671 million, or 21.1%, at December 31, 1998, due primarily to a decrease in
the allocation of shared network assets due to lower consumer volumes to total
volumes. Capital additions in 1997 declined $946 million, or 50.7%, also due to
a decrease in the allocation of shared network assets.

WIRELESS SERVICES

TOTAL WIRELESS SERVICES

For the Years Ended December 31, Dollars in Millions	1998	1997	1996
Revenues	$ 5,406	$ 4,668	$4,246
EBIT	118	265	627
EBITDA	1,220	1,227	1,348
Capital additions	2,372	2,158	2,404
At December 31,	1998	1997	
Total assets	$19,341	$18,850	

CORE WIRELESS SERVICES

For the Years Ended December 31, Dollars in Millions	1998	1997	1996
Revenues	$ 5,007	$ 4,642	$4,238
EBIT	653	824	797
EBITDA	1,563	1,653	1,496
Capital additions	1,850	820	1,316
At December 31,	1998	1997	
Total assets	$14,843	$14,433	

NEW WIRELESS SERVICES

For the Years Ended December 31, Dollars in Millions	1998	1997	1996
Revenues	$ 399	$ 26	$ 8
EBIT	(535)	(559)	(170)
EBITDA	(343)	(426)	(148)
Capital additions	522	1,338	1,088
At December 31,	1998	1997	
Total assets	$4,498	$4,417	

Wireless services is presented in total and as "core" and "new" wireless services. New wireless services includes the impact of the new 1900 MHz markets, wireless data, two-way messaging and fixed wireless development. All other wireless results, primarily services from the 850 MHz markets, are reflected as core services.

REVENUES
Wireless services revenues grew $738 million, or 15.8%, in 1998. Adjusting for the October 1998 sale of our messaging business, 1998 revenues increased 17.2% compared with 1997. The increase was driven by the overwhelming response to AT&T's Digital One Rate service and a full-year impact in 1998 of the launch of eight new 1900 MHz markets in the second half of 1997. AT&T Digital One Rate service, which was rolled out in May 1998, was the first national, one-rate wireless-service plan that eliminates separate roaming and long distance charges.

AT&T Digital One Rate service is one key element of our ongoing efforts to acquire and retain high-value customers. Since the program's launch, more than 850,000 subscribers have signed on to this service. AT&T has continued to add customers at a rate of approximately 100,000 per month and about three quarters of these customers are new to AT&T. In AT&T's 850 MHz markets, average revenue per user (ARPU) was $56.60, a decline of 5.2% compared with 1997. However, in the fourth quarter ARPU increased 1.3% over the prior year's quarter compared with quarter-over-quarter declines of 10.8%, 7.6% and 3.9% in the first, second and third quarters of 1998, respectively. AT&T Digital One Rate service was partially responsible for the slowdown in the decline of ARPU. Minutes of use per average subscriber increased within our 850 MHz markets to a 57.6% growth rate over the fourth quarter of 1997, well above the 4.5%, 16.1% and 36.2%growth rates achieved in the first, second and third quarters of 1998, respectively. For the full year, minutes of use per average subscriber increased 29.5% compared with 1997.

AT&T Digital One Rate service is also a key element of our wireless strategy to migrate customers to digital service, which generates greater network efficiencies and improves customer retention. As of December 31, 1998, we had 7.198 million consolidated subscribers, an increase of 20.7% from December 31, 1997. Digital subscribers represent 60.5% of the consolidated subscribers, up from 52.7% one quarter ago and up from 29.3% at December 31, 1997. Including partnership markets (markets where AT&T has or shares a controlling interest), 5.1 million of the total 9.7 million customers were digital subscribers on December 31, 1998. We expect the success of AT&T Digital One Rate service to contribute to continued revenue growth and we estimate wireless services revenues will grow in the high teens for 1999.

Wireless services revenues increased $422 million, or 9.9%, in 1997. This includes revenues from AT&T's new 1900 MHz markets although the impact on the annual growth rate was minimal. Adjusted for the impact of wireless properties disposed of in December 1996, the 1997 revenue growth rate would have been 12.5%. The revenue growth was driven by consolidated subscriber growth of 18.5% in 1997.

EBIT/EBITDA

EBIT decreased $147 million, or 55.3%, and EBITDA decreased $7 million, or 0.5%, in 1998. Excluding the impacts of the 1998 gain on the sale of SmarTone, the adoption of SOP 98-1 and the 1997 charge to exit the two-way messaging business, EBIT decreased 99.2% to $3 million and EBITDA decreased 15.4% to $1,105 million, compared with 1997.

Core EBIT decreased $171 million, or 20.8%, and core EBITDA decreased $90 million, or 5.4%, in 1998. Excluding the impact of the 1998 gain on the sale of SmarTone and the adoption of SOP 98-1, core EBIT declined $286 million, or 34.7%, and core EBITDA declined $205 million, or 12.4%. This decrease in core EBIT and EBITDA for 1998, compared with 1997, reflects higher intercarrier roaming charges due to increased volume, and lower equity earnings. The decline in EBIT and EBITDA was also due to higher subscriber-acquisition and digital-migration costs which is linked to the growth in the subscriber base as the cost per gross subscriber addition declined 2.8% in 1998. In addition, declines in EBIT were due in part to increased depreciation and amortization expense associated with capital additions. This was partially offset by growth in revenues.

Core EBIT increased $27 million, or 3.5%, and core EBITDA increased $157 million, or 10.5%, in 1997 compared with 1996. These increases are due to the net impact of a growing subscriber base--higher revenues partially offset by increased SG&A. In addition, EBIT was impacted by increased depreciation and amortization expenses associated with the higher asset base.

The EBIT deficit for new wireless services decreased $24 million, an improvement of 4.3% over 1997 and the EBITDA deficit declined $83 million, an improvement of 19.5%. Excluding the impact of the 1997 charge to exit the two-way messaging business, EBIT for new wireless services decreased 34.0% and EBITDA increased 0.9% in 1998 compared with 1997. The decline in new wireless services EBIT for 1998 was due to increased acquisition costs relating to the roll out of nine new markets in 1997, higher intercarrier roaming charges due to increased volume, and increased depreciation and amortization expense due to the significant level of capital spending in 1997. These increased costs were partially offset by the revenues generated in the new markets and increased other income due to gains onsales of 1900 MHz properties.

EBIT and EBITDA deficits for new wireless services increased 229.1% and 188.7%, respectively, in 1997 compared with 1996. Excluding the impact of the 1997 two-way messaging charge, the 1997 EBIT deficit grew to $399 million, an increase of 135.0%, and the 1997 EBITDA deficit increased to $346 million, an increase of 134.5%, compared with 1996. The increase to these losses was due to continued investment in the 1900 MHz markets and reflects the cost to roll out nine new markets in 1997.

OTHER ITEMS
Capital additions increased $214 million in 1998. Capital additions in 1998 were directed primarily at expanding coverage in the core, traditional markets since the build-out of the 1900 MHz markets was substantially completed in 1997.

Total assets increased $491 million from December 31, 1997. This increase was due primarily to the impact of increased investments in nonconsolidated subsidiaries and increased accounts receivables due to growth in revenues. These increases were partially offset by declines in licenses as certain licenses were contributed as part of our investment in nonconsolidated subsidiaries.